



Director of
Intelligence

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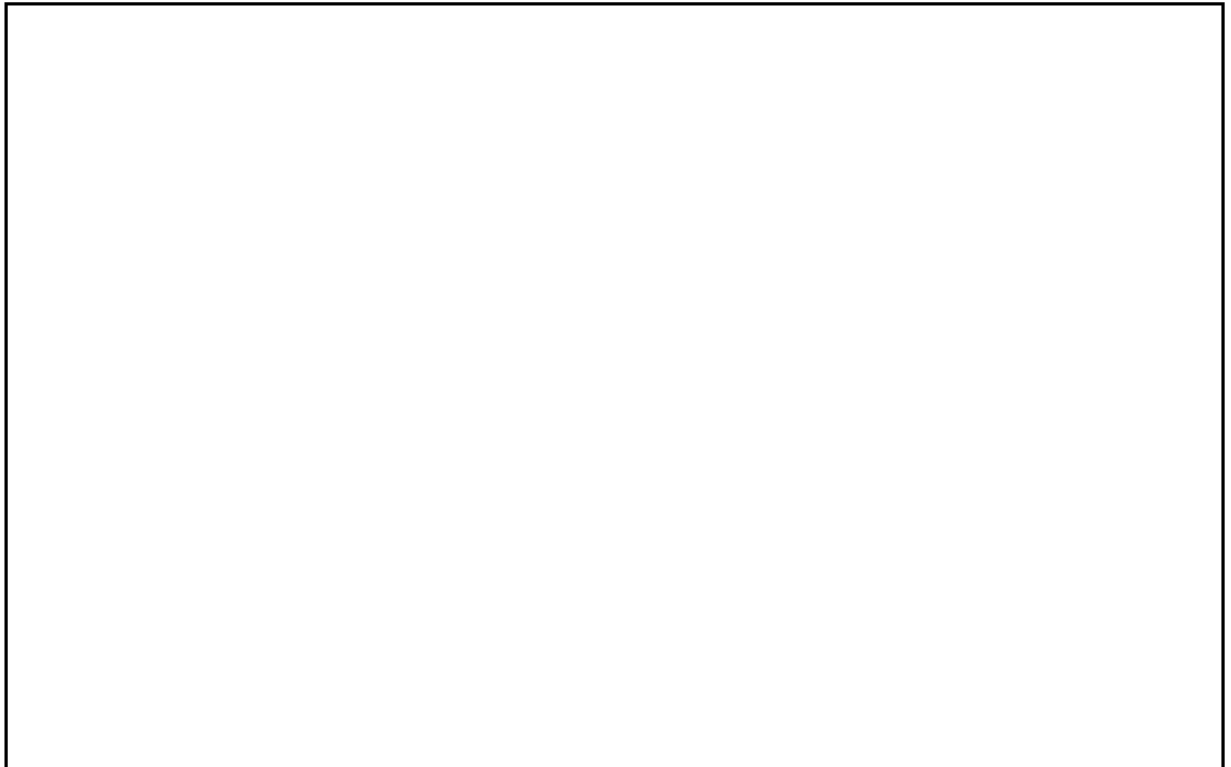
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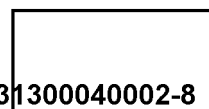
Overnight Reports 15

The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.

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BRIEFS AND COMMENTS

SAUDI ARABIA: Role at Baghdad Conference

In a discussion with US officials Tuesday, Saudi Foreign Minister Prince Saud said his country will break diplomatic relations with Egypt within the next 10 months in line with the resolutions of the recent Arab Foreign Ministers' conference in Baghdad. He also indicated that Saudi Arabia is unlikely to make new aid commitments to Egypt, although it would fulfill existing economic assistance programs. Saud insisted that Saudi Arabia had achieved the best result possible from the meeting and had prevented the radicals from realizing their more extreme demands, including attacks on US interests.

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Pressure tactics used by Arab hardliners at Baghdad forced the Saudis to choose between supporting tough sanctions against Egypt or seeing the conference end in another split in Arab ranks. The Saudi leadership clearly preferred moving closer to the radical camp than to Arab disunity, which would have brought attacks on Saudi Arabia for its stand.

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The Saudis view the potential threat of radicalized Palestinians and subversion by Syrian or Iraqi Baathists as more immediate and real dangers to Saudi Arabia's security than strained ties with Cairo or Washington. The Saudis, moreover, believe the Egyptian-Israeli treaty is a mistake. As a result, at each point of decision since President Sadat's trip to Jerusalem in 1977, they have opted to maintain pace with the Arab consensus. As a result, their political options have been restricted gradually as the consensus has shifted toward policies espoused by the more radical Arab governments.

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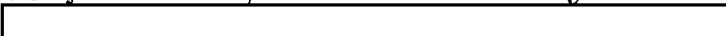
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IRAN: Oil Exports

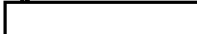
 Iran has not exported any oil since the end of March. After Ayatollah Khomeini's Revolutionary Council apparently rejected the crude oil prices proposed for the second quarter by the National Iranian Oil Company, the Japanese withdrew their tankers from the queue at the Kharg Island exporting facility. 

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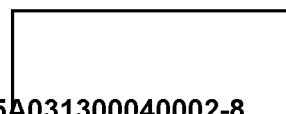
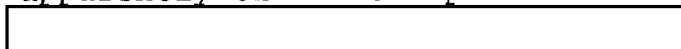
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Iranian deliveries under contracts negotiated before the meeting of the Organization of Petroleum Exporting Countries last week were to begin in the second quarter at prices consistent with the price decided upon by OPEC. Following the OPEC meeting, the Iranian delegation--which included members of the National Iranian Oil Company--announced that Iran's price would include a \$1.20 per barrel surcharge. Even with the surcharge, Iran's prices would be \$3 to \$4 less than Iran received under spot deals during March. The Revolutionary Council apparently thinks the price is not high enough. 

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OVERNIGHT REPORTS

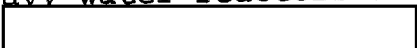
(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

China

The US Embassy in Beijing reports early today that crowds were beginning to gather in Tiananmen Square. Several hundred people gathered in front of Democracy Wall to condemn the arrest of the leader of the Chinese human rights movement and several of his followers. One speaker challenged security officials to arrest him and another warned that should the "gang of four" ever return to power, the spirit of 5 April and its goals of "liberating thought" and establishing "a basic level of democracy" would die. A number of posters were apparent despite public security regulations banning them. 

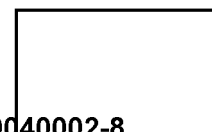
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Canada-Argentina

The US Embassy in Ottawa notes that the Toronto *Globe* yesterday reported that a Canadian company has offered to negotiate its first total nuclear energy package as part of a stepped-up effort to sell Argentina a second CANDU heavy water nuclear reactor. The package, worth more than \$1.5 billion, would give Argentina all the resources necessary to develop eventually its own nuclear energy program based on heavy water reactors and domestic natural uranium for fuel. 

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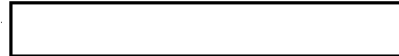
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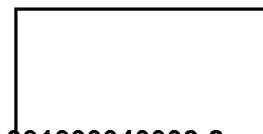
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Italy

The US Embassy in Rome reports that top-ranking officials of the Italian Ministry of Defense have voiced their concern that US-Italian arms cooperation is likely to become an issue in the coming elections. The lack of progress in the implementation of a memorandum of understanding and the absence to date of any tangible benefits to Italy are already subjects of criticism in the Italian press and may be detrimental to the pro-NATO political elements in Italy.



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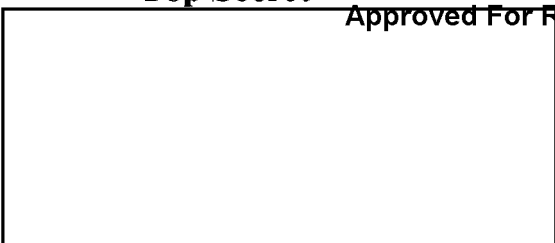


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